



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1998

MEMORANDUM FOR: Dr. Donald R. Johnson
Director
National Technical Information Service

FROM: 
Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audit of NTIS's FY 1997 Financial Statements
Audit Report No. FSC-9867-8-0001

The attached audit report presents the results of the audit of the National Technical Information Service (NTIS) Statement of Financial Position as of September 30, 1997, and the related Statements of Operations and Changes in Net Position and Cashflows for the year then ended. Also provided are reports on NTIS's internal control structure and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by NTIS.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and associated activities for each office, bureau, and activity of the Department. To facilitate the consolidation process, the independent certified public accounting firm of Ernst and Young (E&Y) LLP was contracted to audit NTIS's FY 1997 financial statements. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

In the opinion of E&Y, the Statement of Financial Position as of September 30, 1997, presents fairly, in all material respects, the financial position of NTIS, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

NTIS received a disclaimer of opinion on its Statements of Operations and Changes in Net Position and Cashflow for the year ended September 30, 1997, because of the flow through effect of the disclaimer of opinion on the FY 1996 Statement of Financial Position. As the result of material weaknesses in controls over inventory, E&Y was unable to satisfy themselves as to the amounts reflected in the inventory records.

The results of the FY 1997 audit differ from the results of the FY 1996 audit in that E&Y issued an unqualified opinion on the FY 1997 Statement of Financial Position versus a qualified opinion for FY 1996. However, in its report on the internal control structure for the FY 1997 financial statements, E&Y identified five reportable conditions, all of which are repeat conditions and the first of which is a material weakness:

- ! Controls over Inventory Should be Improved (Repeat Condition).
- ! Controls over Cash Disbursements Need to be Improved (Repeat Condition).
- ! Reconciliations Need to be Properly Prepared and Reviewed (Repeat Condition).
- ! Elimination Entries (Repeat Condition).
- ! Policies Regarding the Recording of Fees, Revenues and Advances Have Not Been Consistently Applied (Repeat Condition).

In E&Y's Report on Compliance with Laws and Regulations, it noted the following instances of non-compliance:

- ! Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the auditors are required to report on whether the bureau's financial management system substantially complies with Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. NTIS's financial management systems were found not to comply with this later requirement.
- ! NTIS did not report certain reportable conditions, including a material weakness, in its 1997 Federal Managers' Financial Integrity Act (FFMIA) report.

Based on NTIS's FY 1997 financial position at year end and prior year trends, E&Y increased the audit scope to include procedures to determine whether the bureau has a going concern issue for FY 1998. After a review of NTIS's current financial position as of December 31, 1997, and FY 1999 annual plan, E&Y concluded that NTIS does not have a going concern issue for FY 1998. However, we believe that NTIS' financial position should be closely monitored by management. NTIS anticipates approximately \$870,000 in net income for FY 1998; however, a cumulative loss of approximately \$870,000 was reported in its *FY 1998 Financial Status Report* as of February 28, 1998. If NTIS continues to report a loss at the current rate, the balance of Cumulative Results of Operations will not be sufficient to sustain them through FY 1999.

Our office reviewed a draft version of NTIS's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act (GPRA) of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 12, 1998, discussion paper and a subsequent meeting with NTIS management. NTIS was responsive to our comments, making some revisions to the overview for FY 1997 and indicating they will make additional upgrades in FY 1998 and future years.

The overview (1) links the NTIS mission with the Department's *Strategic Plan*; (2) contains an informative discussion of the NTIS lines of business; (3) provides a table on performance results, including GPRA measures; (4) includes a discussion of comparative financial results for FY 1996 and FY 1997, including certain financial ratios; and (5) provides discussion of financial management challenges and plans for correction. However, the overview could be improved by (1) including several years worth of data, in order to facilitate trend analyses; (2) comparing actual results to target levels of performance; and (3) strengthening discussions of performance and financial results (e.g., identification of what the performance measures mean). NTIS should also consider strengthening its performance measures (e.g., customer satisfaction).

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage NTIS to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, to "provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition." The OIG realizes that improving the overview is an iterative process and encourages NTIS to strengthen next year's overview.

We recognize NTIS's commitment to preparing high quality and meaningful financial statements. To continue to meet this objective, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration during preparation of the FY 1998 financial statements. Implementation of OMB Bulletin 97-01 will pose tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, in which three were prepared. One of the six statements, the Statement of Net Cost, will require NTIS to report its costs by sub-organizations and programs, which should be based on the missions and outputs described in NTIS's GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for financial and budgetary purposes, NTIS will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan is Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal. The DAO prescribes procedures for handling any disagreements this office may have with the audit action plan.

If you wish to discuss the contents of the report, please contact George E. Ross, Assistant Inspector General for Audits, on (202)482-1934, or Thomas McCaughey, Director, Financial Statements Contract Audits Division, on (703)603-0301. We appreciate the cooperation and courtesies extended by NTIS during the audit.

cc: W Scott Gould
Chief Financial Officer and
Assistant Secretary for Administration

Gary Bachula
Acting Under Secretary for Technology

Ronald E. Lawson
Associate Director for Financial and
Administrative Management

To obtain a copy of this financial statements report, please contact the OIG Publications Unit using any of the following means:

Mail: OIG Publications Unit
Mail Stop H7099-C
14th Street & Constitution Avenue, N.W.
Washington, D.C. 20230

E-Mail: oigreports@doc.gov

Telephone: 202-482-0231

FAX: 202-482-4266

For a complete listing of all OIG publicly released reports, visit the OIG Internet Web Site.

<http://www.oig.doc.gov>